DOCUMENT RESUME

ED 420 268 HE 031 324

AUTHOR Hauptman, Arthur M.; Krop, Cathy S.

TITLE Federal Student Aid and Tuition Growth: Examining the Relationship.

INSTITUTION Council for Aid to Education, New York, NY.
PUB DATE 1998-00-00
NOTE 27p.
AVAILABLE FROM Council for Aid to Education, 342 Madison Avenue, Suite 1532, New York, NY 10173; phone: 212-661-5800; fax: 212-661-9766; http://www.cae.org
PUB TYPE Reports - Research (143)
EDRS PRICE EDRS Price MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS *Economic Impact; *Educational Economics; Eligibility; *Federal Aid; *Financial Policy; Financial Support; Grants; Higher Education; Paying for College; *Student Financial Aid; Student Loan Programs; *Tuition

ABSTRACT

A debate has raged over the effect of federal student aid on tuition growth. Former Secretary of Education, William Bennett claimed that colleges and universities explicitly take federal aid into account in setting tuition and other charges, thereby stimulating tuition increases that are higher than the rate of inflation. An alternative view is that increases in federal aid, particularly loans, is not the main cause of tuition growth. The proportion of total college attendance costs met through federal student loans has increased dramatically over the past two decades, growing from less than 10 percent in the public sector and 20 percent in the private sector in 1975 to nearly 50 percent in the public sector and close to 40 percent in the private sector in 1995. During the same period, aid provided by institutions' own resources grew from just over 5 percent to nearly 20 percent. The tremendous growth in federal loans has made it easier for institutions to raise tuition at twice the rate of inflation without experiencing decreases in enrollment; because of their smaller, relatively stable share, federal grants have had less impact on college pricing decisions. To moderate tuition increases without impinging on colleges' autonomy, the federal government could determine student eligibility for loan subsidies based on partial costs, create an annual limit on federal aid, or establish performance-based regulatory relief. (MAB)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED 420 268

PERMISSION TO REPRODUCE AND
DISSEMINATE THIS MATERIAL IN MICROFICHE
AND IN ELECTRONIC MEDIA FOR ERIC
COLLECTION SUBSCRIBERS ONLY
HAS BEEN GRANTED BY

C. Cullar

TO THE EDUCATIONAL RESOURCES
INFORMATION CENTER (ERIC)

2A

HE031 324

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

The Council for Aid to Education (CAE) is a national nonprofit organization. Its mission is to enhance the effectiveness of corporate and other private sector support in improving education at all levels and to help education institutions more effectively acquire private support for their programs.

CAE is an independent subsidiary of RAND, a nonprofit institution that helps improve policy and decisionmaking through research and analysis. To order this document or to learn more about the Council for Aid to Education, contact CAE at:

342 Madison Avenue, Suite 1532
New York, New York 10173
Telephone: (212) 661-5800
Fax: (212) 661-9766
http://www.cae.org

CAE

Federal Student Aid and Tuition Growth: Examining the Relationship

Arthur M. Hauptman
and
Cathy S. Krop

CAE
Council for Aid to Education

This study was conducted by the Council for Aid to Education at the request of the National Commission on the Cost of Higher Education.

© Copyright 1998 CAE

Federal Student Aid and Tuition Growth

The effect of federal student aid on tuition growth has been the source of heated debate at least since William Bennett raised the issue as Secretary of Education during the mid-1980s. Bennett's argument then was that colleges and universities explicitly take federal aid into account in setting tuition and other charges, thereby stimulating tuition increases that are much higher than the rate of inflation.

An alternative view advanced by most higher education officials is that increases in federal student aid are not responsible for the rapid growth in tuition. This view claims that if any correlation does exist, it works the other way around: *decreases* in federal aid may lead to higher tuition as institutions use their own resources to help poorer students and raise tuition for students judged capable of paying the full price. Many college and university officials also believe that the costs of complying with federal student aid and many other federal as well as state regulations have further contributed to inflated cost structures.

This paper attempts to shed light on the discussion in two ways: by identifying possible ways in which federal student aid policies may have affected the growth in college costs and tuition, and by recommending policy changes to address the potential inflationary effects of federal student aid.

We found that the increasing availability of federal aid, particularly loans, is not among the main causes of tuition growth but has clearly cushioned the effects of that growth on consumers. The proportion of total college and university costs of attendance met through federal student loans has increased dramatically over

the past two decades. At the very least, the tremendous growth in federal loans has made it easier for both public and private institutions to raise their tuition at twice the rate of inflation for nearly two decades without experiencing decreases in enrollment or other clear signs of consumer resistance. Federal grants have had less impact on college pricing decisions. Compared to loans, federal grants cover a much smaller share of total costs of attendance and that share has been relatively stable over time.

...the increasing availability of federal aid is not among the main causes of tuition growth but has clearly cushioned the effects of that growth on consumers.

Effect of Federal Legislation

To the extent that there may be a connection between federal loan availability and tuition growth, it can be traced to passage of the Middle Income Student Assistance Act (MISAA) in 1978. Before this legislation, only students with family incomes of $25,000 or less were eligible for federally subsidized loans. With the passage of MISAA—which, incidentally, was a response to efforts to pass tuition tax credits—the income cap was removed entirely. In addition, in 1979 the limit on federal payments to lenders was removed so that payments could float with what were then volatile market conditions.

These two congressional actions led to the first of several explosions in loan volume in the late 1970s and early 1980s.[1] In response to this boom, Congress reimposed a cap on federal loans with an in-school interest

[1]Since the mid-1970s, total loan volume in the federal student loan programs has grown fivefold in real terms.

subsidy in 1981, but this time it was based on a student's need—costs of attendance minus expected family contribution and other aid received. This shift in eligibility requirements created a stronger relationship between loan availability and college charges: any increase in charges potentially translated into greater eligibility for a subsidized loan. With this situation, the connection between loan policy and college charges remains tenuous as long as loan limits are relatively low.[2] But when loan limits increase, greater loan availability creates an environment in which tuition increases become more tolerable to the public. This is most obviously the case with the Parent Loans (PLUS) program, in which there are now no specific dollar limits and a student's costs of attendance are the only limit on how much parents can borrow.

...greater loan availability creates an environment in which tuition increases become more tolerable to the public.

Eligibility based on need also raises the issues of equity and effectiveness. Eligibility for subsidized loans now varies depending on the costs of the institution attended. A student whose family earns $80,000 is now ineligible for federal in-school interest payments if he or she goes to a public institution where the total costs of attendance (including tuition and fees, room, board, and other expenses) are $10,000. But if that same student goes to a private institution where the average costs of attendance exceed $20,000, he or she might well be eligible for a subsidized loan. At current tuition levels, students with

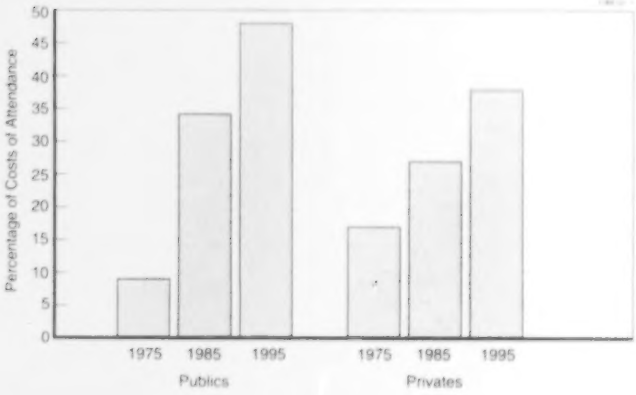
[2]Michael McPherson and Morton Schapiro, in Chapter 8 of their new book, *The Student Aid Game: Meeting the Need and Rewarding Talent in Higher Education* (Princeton, N.J., Princeton University Press, 1998), reject the notion that federal loans have contributed to tuition inflation—largely on the basis that there are limits on how much students can borrow.

family incomes in excess of $100,000 can qualify for such loans at the highest-priced institutions. Moreover, eligibility for this interest subsidy continues if the borrower goes to graduate school, thus adding substantially to the long-term federal taxpayer cost.[3]

Increasing Share of Costs Covered by Federal Aid

Perhaps the most compelling evidence that federal aid may have affected tuition comes from the spectacular growth in the proportion of total costs covered by federal aid over the last 20 years. Figure 1 illustrates this trend. In 1975, federal aid—by which we mean loans, grants, and work-study—paid less than 10 percent of the total costs of attendance in the public sector and less than 20 percent in the private sector. In 1985, those proportions had grown to almost 35

Figure 1 — Federal Aid As a Percentage of Costs of Attendance



[3]Need-based eligibility also raises questions of the effective use of public taxes, because federal loans can be used to support student lifestyles. If an institution decides to upgrade its dormitories, for example, and increases its room fees to pay for the renovations, the federal government could become a partner in this decision by subsidizing loans that reflect the higher cost. Similarly, the government could effectively subsidize a student's choice to live in a single dorm room rather than double up.

percent for the public sector and just over 25 percent for the private sector. By 1995, federal student aid paid nearly 50 percent of the total costs of attendance for public college students and close to 40 percent for private college students.

The growth in aid as a proportion of costs of attendance is particularly striking for federal loans, which now constitute the largest form of student aid.[4] As Figure 2 shows, federal loans paid for about 41 percent of total costs of attendance in the public sector in 1995, up from less than 5 percent in 1975. For private-sector students, federal loans in 1995 paid for 35 percent of costs of attendance, up from about 14 percent in 1975.

Figure 2 also shows some shift in the portion of costs covered by federal loans between public and

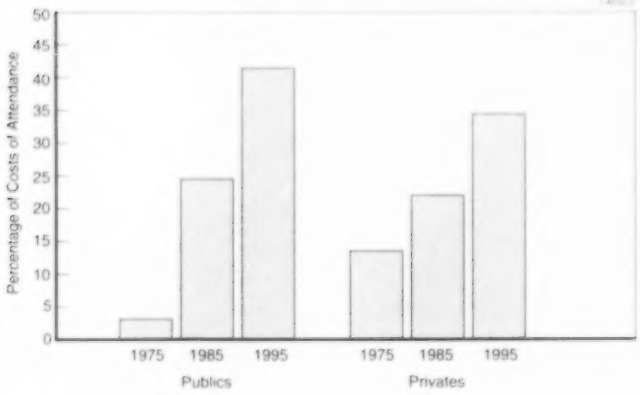


Figure 2 — Federal Loans As a Percentage of Costs of Attendance

[4]In this paper, the term federal loans refers to the various federally sponsored loan programs, including those financed with federal capital as well as privately financed loans that are either subsidized or guaranteed by the federal government or its agents. The term subsidized loans refers to loans for which the federal government pays the interest while the borrower is in school; unsubsidized loans are federally guaranteed but provide no federal in-school interest payment. All federal loans are subsidized, however, in that the effective rate of interest, which is set by law, is well below what the private sector charges in the absence of a federal guarantee.

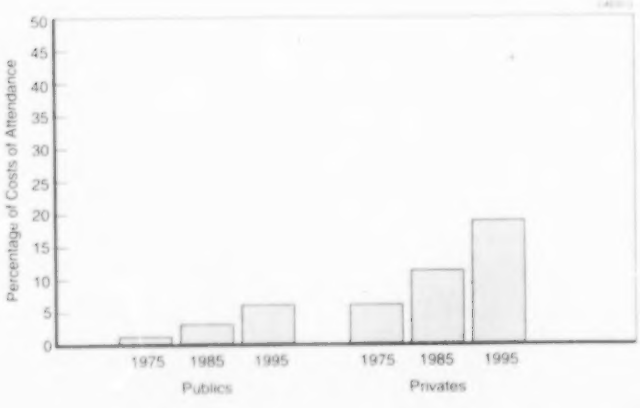
private institutions. In 1975, Federal loans covered a larger portion of costs of attendance in private institutions than in public ones. By 1985, this was no longer the case.

Federal grants, in contrast, have covered approximately the same proportion of costs for 20 years: less than 10 percent at public and private institutions. This relatively stable proportion of funding, combined with the fact that costs of attendance effectively no longer determine the size of the Pell Grant a student receives, suggests that Pell and other forms of federal grant aid have not played a major role in most colleges' pricing decisions.

Growth of Institutional Aid

Another striking trend in the financing of higher education over the past 20 years is the rapid growth in the aid that both public and private institutions provide from their own resources (Figure 3). This institutional aid, or "discounting," is seen more in the private sector, where it has increased fourfold in 20 years, paying for nearly 20 percent of the total costs

Figure 3 — Institutional Aid As a Percentage of Costs of Attendance



of attendance in 1995, up from just over 5 percent in 1975. In contrast, institutional aid in the public sector represented just 5 percent of the total costs of attendance in 1995, but even that was almost five times what it was in 1975.[5]

Although more and more students and families receive institutional aid, the federal aid formula ignores such discounting and calculates eligibility on the full cost of tuition, fees, and room and board. As shown in Figure 4, if institutional aid were subtracted from the sticker price, federal loans as a percentage of actual costs of attendance (full costs minus institutional aid) in 1995 would increase to 44 percent in public institutions and 42 percent in private institutions.

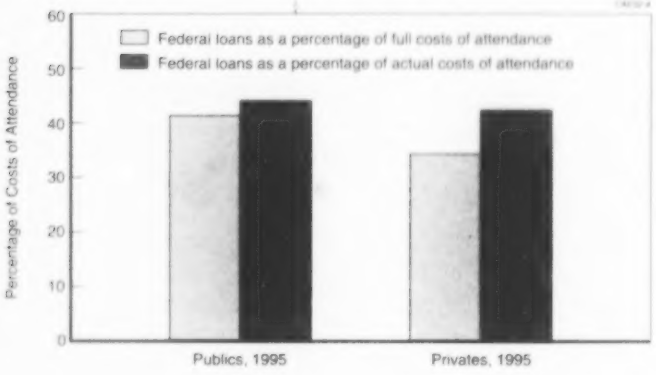


Figure 4 — Federal Loans As a Percentage of Full and Actual Costs to Students in 1995

[5]For a variety of reasons, higher education traditionally has accounted for the student aid that institutions provide from their own resources as an expenditure item along with faculty salaries and heating bills. But in recent years, a growing number of higher education officials and analysts have recognized that institutionally funded student aid more properly should be accounted for as a discount from revenues, and that the price students pay minus the financial aid they receive is a more appropriate measure of the costs students face than are the sticker prices published in college catalogues.

Recent Analysis

At least two recent analyses have examined the issue of whether federal loans are correlated with the rapid growth in tuition and have concluded that they are not. But both analyses are incomplete and misleading because they do not examine long-term trends for both public and private institutions and both subsidized and unsubsidized loans. One of these analyses was done by the Coopers and Lybrand consulting group on contract with the American Council on Education.[6] This study focused strictly on subsidized loans over the past five years and used multiple regression techniques that showed no correlation between loan subsidies and the growth in tuition. Loan subsidies, however, are an inappropriate measure of the impact of federal loans. The dollar amount that students and their families have borrowed is a much better measure in that it represents how much money students and their families do not pay out of their own pocket while the students are enrolled. Moreover, unsubsidized loans have accounted for most of the increase in federal loan volume since 1992—and now represent one-third of all federal loan volume.

The other analysis is presented in a memorandum prepared by Jamie Merisotis, of the Institute for Higher Education Policy, for Senator James Jeffords, chairman of the U.S. Senate Committee on Labor and Human Resources.[7] This analysis compares the an-

[6]Coopers and Lybrand, L.L.P. *The Impact of Federal Student Assistance on College Tuition Levels: A Statistical Analysis Based on U.S. Department of Education "IPEDS" and "NSLDS" Information for Academic Years 1989–1990 and 1994–1995*. Washington D.C., September 1997.

[7]Jamie Merisotis. *Memorandum for Senator James Jeffords, Chairman of the Senate Labor and Human Resources Committee*. The Institute for Higher Education Policy: Washington D.C. June 20, 1997.

nual percentage increases in loan volume and tuition at public institutions on both a concurrent and lagged basis and shows no correlation.

Studies of year-to-year changes, by their nature, however, fail to take into account longer-term trends and patterns. If the same data in the memorandum to Senator Jeffords were presented on a cumulative basis over time and compared to the growth in the general rate of inflation, a more striking correlation would appear. Figure 5 illustrates the cumulative percentage change in both tuition cost and loan volume since 1985–86 for public institutions. Figure 6 does the same for private institutions.

The thrust of our argument here is that college officials set their tuition and other charges each year and then gauge whether students and their families are willing and able to pay them. If demand slackens, colleges then either reduce the rate of increase in tuition and other charges the next year or become even more aggressive with their student aid strategies. In this kind of scenario, growing loan availability over time is a more important factor in determining students' ability to pay than are annual changes in eligibility rules and limits for federal loan programs.

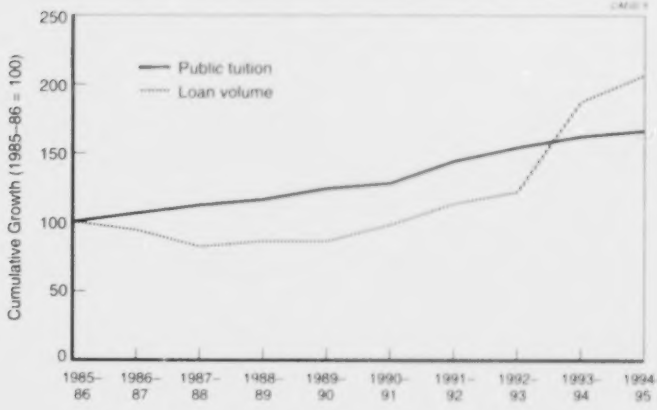
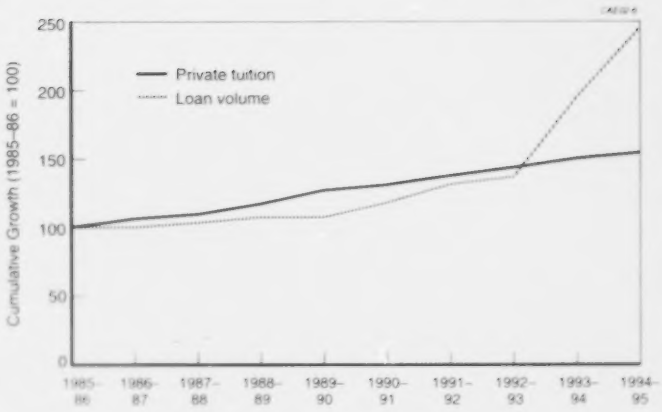


Figure 5 — Public Institutions: Real Growth in Tuition and Federal Loans Over 10 Years

Figure 6 — Private Institutions: Real Growth in Tuition and Federal Loans Over 10 Years



Loan Volume and Tuition Increases

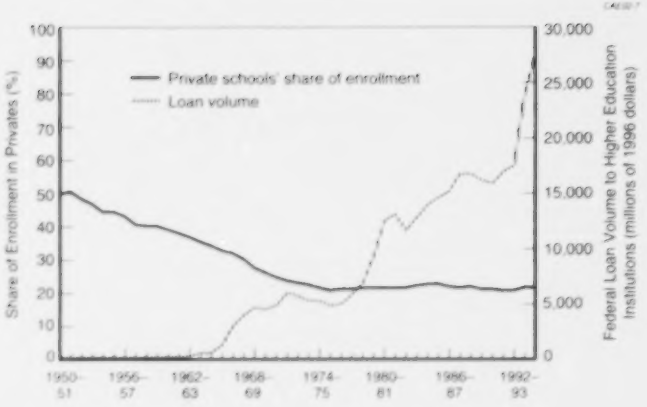
Given the growing importance of federal loans in paying for college, it is increasingly difficult to argue that they have had no effect on tuition setting at many institutions. Arguing that federal loans are not a factor is akin to arguing that the ready availability of mortgages has no impact on the price of housing in this country, or that car manufacturers could maintain their prices even if loans and leases were not available to finance automobiles. Half of all students who are eligible to borrow now do so. With so many students borrowing such a high proportion of their costs of attendance, it is inevitable that loans provide some degree of insulation to consumers when institutions raise their prices.

This is not to say that college officials stay up nights figuring out how they can set tuition and other charges to maximize the federal aid eligibility of their students. Many other factors play a more important role in tuition pricing decisions than federal aid does. Foremost among these is the slowdown in growth of

state support for higher education, which has made it increasingly difficult for public institutions to finance the higher costs of education. Furthermore, all institutions have been investing heavily in improving the quality of the services they offer. Students and parents are willing to pay a higher price to have good professors, a wide range of programs, more student services, up-to-date facilities (including the latest technologies), and pleasant surroundings. Students and their families also appear willing to pay higher tuition because of the increasing market value of a college education. The growing gap in lifetime earnings between those who do and do not complete college is a critical factor in allowing institutions to charge higher prices.

Although these factors have had the most direct effect on tuition increases, there is little doubt that the growing availability of federal loans has permitted the "high tuition/high aid" strategy that so many private colleges pursued in the 1980s. Loans traditionally have been far more critical to the financing of private institutions than to that of public institutions, where tuition is much lower. At the very least, the tremendous growth in the availability of federal loans has facilitated the ability of both public and private institutions to raise tuition dramatically without threatening enrollment levels. It seems likely that private colleges and universities could not have stabilized their share of total enrollments over the past two decades without the tremendous expansion that took place in federal loan availability. Figure 7 shows that the proportion of students enrolled in private institutions has remained at a steady 20 to 25 percent over the past 20 years, a period of sharp growth in student loans.

Figure 7 — Relationship of Loan Volume to Enrollment in Private Institutions



Proposed Policy Options

The traditional federal response to growing college costs and tuition has been to seek ways to increase aid to keep college affordable. An alternative approach is to try to keep tuition and other charges down. Some members of Congress have suggested that the federal government should limit how much institutions can charge and still keep their students eligible for federal student aid. Another legislative suggestion has been to limit aid for students attending institutions where tuition and other charges increase more rapidly than inflation. Both of these approaches, however, require federal involvement in the process of setting prices, a role many find inappropriate. These proposals would also entail a massive effort on the part of the federal government to monitor how much institutions charge. If a more constructive strategy is not found, however, federal limits on tuition and other charges could possibly emerge in the reauthorization process.

Our view is that tying limitations on college charges to student eligibility for federal aid would be

counterproductive, just as past efforts at wage and price controls have failed for other industries. And the proposal to limit aid for students attending institutions whose tuition has increased more rapidly than inflation would create perverse incentives or lead to accounting tricks. For example, one decision an institution could make to conform to this kind of federal rule would be to cut back on the aid it provides from its own resources, which is certainly not the intention of those who propose such a limit. Another way institutions might react would be to restrict tuition growth by shifting to fees or to other charges that would not be subject to the federal limitation.

We propose three federal policy options that might help moderate tuition increases ...without imposing on institutional autonomy.

We propose three federal policy options that might help moderate tuition increases in the future without imposing on institutional autonomy. We do not mean to imply by these proposals that federal policies have caused the explosion in college costs. As we have already indicated, many factors have contributed more directly to rising costs. It is worthwhile, nonetheless, to consider whether the federal government could reduce the inflationary pressures or incentives for cost escalation that exist in current procedures and rules.

Partial Cost Reimbursement

One way for the federal government to address the question of college costs and student aid without intruding on institutional autonomy is to consider only a portion of a student's total costs of attendance in calculating his or her eligibility for federal loan subsidies. This partial cost reimbursement model would represent a shift from the traditional federal

aid practice of recognizing a student's total costs of attendance in determining eligibility for federal student loans. Such a change in policy could have the beneficial effect of decoupling or at least reducing whatever link may now exist between federal aid and tuition setting, since the federal government no longer would match every increase in student charges on a dollar-for-dollar basis.

The federal government could move in the direction of partial cost reimbursement by recognizing a portion of tuition costs (say, 50 percent) above some base level of tuition (say, $3,000, to reflect average tuition and fees at public institutions) and a standard amount of nontuition expenses in determining a student's eligibility for federal loan programs. This proposed change would have no effect on determining eligibility for Pell Grants, which should be allowed to continue to serve as the foundation aid program. In addition, under this proposal, institutions could continue to use the total costs of attendance in determining an individual student's eligibility for the federal campus-based programs.

Instead of telling institutions how much they could charge, the federal government would be limiting how much of a student's total costs of attendance could be subsidized through the federal loan programs. Both family contributions and federal grant aid would be subtracted from the partial costs of attendance, rather than the current practice of using whatever the institution charges as the upper bound of federal interest subsidies.

There are several precedents for this kind of partial cost reimbursement approach. Since 1992, the Pell Grant program has recognized only a standard living expense in its award formula. Two newly enacted

tuition tax credits—the HOPE and Lifetime Learning tax credits—recognize only a portion of tuition in order to discourage institutions from raising tuition to capture more federal tax benefits for their students. Interestingly enough, neither of these precedents has been seen as an example of federal price controls.

Partial cost reimbursement would also address issues of equity and effectiveness. Students whose family contributions and other aid are less than their partial costs of attendance would still be eligible for subsidized loans. Students whose family contributions exceed the partial cost calculation would be ineligible for subsidized loans, but could still borrow in the federal unsubsidized loan programs. In a time of more limited federal resources, a policy that targets federal subsidies to those students with lower family incomes, regardless of where they go to school, and that provides unsubsidized loans to meet the cash flow needs of students from families of more substantial means may be more appropriate than the current policy of providing better-off students with expensive federal subsidies throughout their educational careers.

The important point here is that policymakers ought to decide how far up the income scale they want to provide subsidies. If properly structured, partial cost reimbursement could reduce whatever incentive exists for higher-priced institutions to increase their tuition, since students with family incomes above the cap would no longer see their eligibility for subsidized loans increase as tuition rises. If non-tuition expenses were limited to a standard amount, the federal government could also get out of the business of subsidizing student lifestyle choices.

Partial reimbursement also has the advantage of recognizing the growing role that states and institutions play in providing student aid. Current practice gives the impression that the federal government is the only source of funds in the student aid process. A partial cost approach could ultimately lead to lower federal subsidy costs, but lower costs need not be its underlying purpose. It could also be used to increase subsidized loan limits for students from lower-income families. If that were the case, a partial cost approach would redistribute subsidies rather than lowering federal expenditures for student loans.

Some will argue that if future federal loans meet only a portion of tuition and other charges, many institutions may respond by raising their prices still further to generate more discounts for students whose eligibility to borrow will have been reduced. But in the past, most institutions could not have offset federal grant decreases through higher discounts if federal loans had not been available to pick up much of the newly created need. If loan eligibility is what is being reduced, institutions will be hard-pressed to raise their prices to pay for more aid discounting.

We want to emphasize again that under partial cost reimbursement, institutions could charge whatever they want and there would be no federal role in monitoring tuition and other charges. The federal government simply would stop providing subsidized loans to students with family contributions above the partial cost level.

Annual Limit on Federal Aid

The preceding discussion does not address the question of whether students who become ineligible for

federal in-school interest subsidies under a partial cost reimbursement approach should be able to participate fully in the federal unsubsidized loan programs, and whether parents should continue to be able to borrow up to the full costs of attendance in the PLUS program.

The dilemma here is as follows. If what students and parents may borrow in the unsubsidized programs is limited to the partial costs of attendance, many current students and their families will simply not be able to borrow enough through the federal loan programs to attend the institution of their choice. On the other hand, if students can obtain unsubsidized loans up to the total costs of attendance, then partial cost reimbursements will have done nothing about the issue of college costs and federal loans. Whatever link college tuition may now have to federal loans will simply shift to the unsubsidized federal loan programs, with lower federal expenditures for student loans but higher borrowing costs for many students.

One solution to this dilemma is for the federal government to limit how much federal aid students can receive annually, including through the various unsubsidized loan programs. Each of the federal student aid programs has its own limits on how much students can receive, but there is no limit on the total amount of federal aid students can receive, either annually or over the course of their education. As a result, rising tuition and other charges are often financed through a progression of federal student aid programs. Campus-based aid is added to Pell Grants, subsidized loans are added to campus-based programs, unsubsidized student loans and PLUS loans are added to subsidized loan amounts. The total

amount of federal aid through the Title IV programs sums up to well in excess of $15,000 for undergraduates and more than $20,000 for students in graduate and professional school fields of study.[8] While few students receive this much in federal aid, piling federal programs on top of one another with no sense of an overall limit increases the potential link between college costs and federal aid.

The lack of an overall annual limit on federal aid also contributes to concerns about the fragmentation of the student aid delivery system and an overall lack of coherence in federal policies. If one were to ask how much federal aid a student can receive, few people could answer correctly, because an overall figure never appears in the legislation or in federal student aid documentation. Students and their families do not know how much federal aid is available, because the information is never provided. In addition, the absence of an overall limit means there are no trade-offs among federal aid programs. What students receive in grants typically does not affect how much they or their parents can borrow.

Placing a limit on total annual federal aid would build on the proposal for a Student Total Education Package (STEP), the keystone of the 1993 report of the National Commission on Responsibilities for Financing Postsecondary Education. The STEP proposal was made to increase awareness about the availability of federal aid and to generate support for more funding of federal aid. But such an approach also could help to reduce the potential link between

[8] These figures do not include veterans' education benefits and other specialized forms of aid, such as scholarships and fellowship programs provided under Title IX of the Higher Education Act. Nor do they include health professional loans and other specialized loan programs not authorized by the Higher Education Act.

tuition costs and federal student aid programs by removing total costs of attendance from the student aid equation.

Imposing an overall limit on how much federal aid students may receive would have yet another important favorable consequence. It would introduce greater policy coherence into the federal student aid structure by establishing a relationship among the various federal programs.

Performance-Based Regulatory Relief

Colleges and universities, like any other organizations in U.S. society, are obligated to comply with a broad range of federal and state laws and regulations. As issues in American society have become increasingly complex, so has the breadth of laws and regulations with which higher education institutions must comply.

For colleges and universities, these laws and regulations govern the safety of their workers, the security of their students, and the environmental hazards created in their laboratories. Many higher education officials believe that compliance with federal and state laws and regulations has contributed greatly to increased costs and consequently to the tuition charged. Some have estimated that as much as 10 percent or more of total expenditures at their institutions go toward providing the necessary information to dozens of federal and state agencies.

These concerns are not new, however. The American Council on Education, for example, issued a report in 1976 on the costs of federally mandated social programs at colleges and universities. That report suggested that while the compliance costs to individual institutions were small—less than 5 percent of operating budgets—they were growing

much faster than instructional costs or total revenues. Interestingly, the highest-cost item identified in the 1976 report was the payment of social security taxes. The belief that federal laws and regulations are adding to the costs of higher education has not abated in the intervening two decades, although environmental regulations are now a more likely target of criticism. Few college officials would now mention social security taxes as a burdensome regulation.

With regard to federal student aid programs, the prevailing philosophy in both statute and regulation has been to have all institutions comply with the same set of rules and reporting requirements. To participate, all institutions must comply with uniform requirements, including maintaining a default rate in the student loan programs below certain specified levels, meeting certain minimum financial requirements, being accredited by a recognized accrediting agency, and providing annual audits and other information as required by the Higher Education Act and related regulations. In the existing regulatory structure, little or no distinction is made based on how well institutions administer the federal aid programs. Institutions with low default rates and well-run aid offices are subject to the same reporting requirements as institutions with high default rates and understaffed or nonexistent financial aid offices.

The Clinton administration has proposed moving away from this philosophy. It advocates the development of a system in which institutions determined to be doing a good job in administering the federal student aid programs would be subject to less intensive regulatory and reporting requirements than would institutions that have not performed as well. The administration's proposal was prompted in part

by comments it received from a number of college officials who argued that their institutions were doing a good job administering the programs and should not be subject to the same rules and regulations as institutions with an inferior track record.

The Clinton administration sponsored a set of discussions in 1995 and 1996 on a preliminary proposal of performance-based deregulation and invited formal written responses from interested parties. While there was considerable interest on the part of many college and university officials in pursuing the notion of performance-based deregulation, the response from much of the higher education community, as represented by their associations, was lukewarm at best. Representatives of at least several of the associations suggested that broad-based deregulation is a more appropriate approach to the issue of over-regulation in higher education than is deregulation based on performance. In the heated environment preceding the 1996 presidential campaign and election, the administration chose to postpone deliberations on its proposal.

Differentiating regulatory and reporting requirements on the basis of how well institutions are administering the federal student aid programs remains a good idea. A performance-based deregulation approach would appropriately reward institutions that show they are doing a good job administering the federal student aid programs. It also would allow federal regulators to target their limited resources for enforcement toward those institutions not meeting minimal standards in administering the programs.

BEST COPY AVAILABLE